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New Study Finds Pensions Are Preferred Retirement Plan

New Public Sector Employees Overwhelmingly Select Pensions Over Individual Retirement Accounts; Pension Cost Efficiencies Cited as Key Advantage

September 29, 2011, Washington, D.C. - A new study of the retirement plan choice in the public sector finds that defined benefit (DB) pensions are strongly preferred over 401(k)-type defined contribution (DC) individual accounts. The study analyzes seven state retirement systems that offer a choice between DB and DC plans to find that the DB uptake rate ranges from 98 to 75 percent. The percentage of new employees choosing DC plans ranges from 2 to 25 percent for the plans studied.

In recent years, a few states have offered public employees a choice between primary DB and DC plans. The new study, [*Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers*](#), analyzes the choices made by employees and finds that:

- When given the choice between a primary DB or DC plan, public employees overwhelmingly choose the DB pension plan.
- DB pensions are more cost efficient than DC accounts due to higher investment returns and longevity risk pooling.
- DC accounts lack supplemental benefits such as death and disability protection. These can still be provided, but require extra contributions outside the DC plan which are therefore not deposited into the members' accounts.
- When states look at shifting from a DB pension to DC accounts, such a shift does not close funding shortfalls and can increase retirement costs.
- A "hybrid" plan for new employees in Utah provides a unique case study in that it has capped the pension funding risk to the employer and shifted risk to employees.

The seven plans offering DB and DC choice that were analyzed for the study include Colorado Public Employees' Retirement Association, Florida Retirement System, Montana Public Employee Retirement Administration, North Dakota Public Employees Retirement System, Ohio Public Employees Retirement System, State Teachers Retirement System of Ohio, and South Carolina Retirement Systems. The new hire elections for these plans are summarized below:

System	DB Plan Enrollments	DC Plan Enrollments	Combined Plan Enrollments
Colorado Public Employees' Retirement Association	88%	12%	Not offered
Florida Retirement System	75%	25%	Not offered
Montana Public Employee Retirement Administration	97%	3%	Not offered
North Dakota Public Employees Retirement System**	98%	2%	Not offered
Ohio Public Employees Retirement System	95%	4%	1%
State Teachers Retirement System of Ohio	89%	9%	2%
South Carolina Retirement Systems	82%	18%	Not offered

"Not offered" means enrollment in a combined DB/DC plan is not offered.

*Data for CO, NC, & Ohio PERS are for January 2010 - December 2010.

Data for FL, MT, STRS Ohio, & SC are for July 2010 - June 2011.

** One new employee out of the 63 eligible joined ND DC plan in 2010.

"Beyond the seven states analyzed that offer DB-DC choice, the experiences of Nebraska and West Virginia offer additional insight," said report co-author [Mark Olleman](#), consulting actuary and principal with [Milliman, Inc.](#) "Both states chose to put new hires in a DC plan, and then later changed to DB. Nebraska offered some employees hired between 1964 and 2003 only a DC plan, but also maintained a DB plan for other employees. Over 20 years, the average investment return in the DB plan was 11 percent, and the average return in the DC plans was between 6 and 7 percent."

Olleman continued, "West Virginia closed their Teachers' DB plan to new hires in 1991 in response to funding problems and put all new hires in a DC plan. Unfortunately this did not solve the funding problem, and many teachers found it difficult to retire when relying only on the DC plan. West Virginia performed a study, found a given level of benefits could be funded for a lower cost through a DB plan, and put all teachers hired after July 1, 2005, in the DB plan as a cost-saving measure. So both Nebraska and West Virginia found a DC plan did not achieve their goals and changed from DC to DB."

[Ilana Boivie](#), report co-author and economist with the [National Institute on Retirement Security](#), said, "The research is clear that public employees highly value their pension benefits and will choose this retirement plan over an individual DC account. These findings are not surprising and are consistent with NIRS' recent [opinion polling](#) earlier that found 83 percent of Americans believe those with pensions are more likely to have a secure retirement."

Boivie added, "Moreover, employers understand that pensions remain [the most cost-effective way](#) to fund a retirement benefit, and that switching from pensions to individual accounts can drive up costs for taxpayers. These economic facts coupled with strong employee preferences for pensions suggests that public employers are unlikely to mimic the [trend away from pensions](#) that has occurred in the private sector."

The full study is available at www.nirsonline.org.

About NIRS

The National Institute on Retirement Security is a not-for-profit, non-partisan organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy through national research and education programs. Located in Washington, D.C., NIRS has a diverse membership of organizations interested in retirement security including financial services firms, retirement plan sponsors and service providers, and trade associations among others. More information is available www.nirsonline.org.

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The full report in PDF [here](#).

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